

## Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 SPC-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 DODE-00 PM-07 H-03 L-03 PA-04 PRS-01 USIA-15

DRC-01 /184 W

----- 095144

R 262125Z MAR 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 9057

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

LIMITED OFFICIAL USE SECTION 01 OF 02 LONDON 03829

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN, UK

SUBJECT: COMMENTS ON THE U.K. BUDGET

1. U.K. BUDGET DECISIONS BASED ON FOUR MAJOR PRINCIPLES:

A. THE NEED TO MAKE THE FULLEST POSSIBLE USE OF  
ALL THE RESOURCES AVAILABLE TO THE U.K.;

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B. THE NEED TO SECURE A SUSTAINED IMPROVEMENT IN

U.K. BALANCE OF PAYMENTS;

C. THE NEED TO RESTORE PEOPLE'S CONFIDENCE IN  
THE VALUE OF MONEY;

D. THE NEED TO RECREATE A SENSE OF SOCIAL UNITY  
BY SHARING CURRENT BURDENS AND REWARDS FAIRLY.

HEALEY STRESSED IT WILL NOT BE POSSIBLE TO  
ACHIEVE ALL GOALS AT ONCE. THIS BUDGET CONCERNED WITH THE  
FIRST 3 OBJECTIVES. IF THE HOUSE AND COUNTRY PERMIT, THERE  
WILL BE A SECOND BUDGET LATER IN THE YEAR TO DEAL WITH  
FUNDAMENTAL CHANGES IN THE TAX SYSTEM AND WITH ANY FURTHER  
ADJUSTMENTS TO DEMAND WHICH MAY BE REQUIRED.

2. IT SEEMS OBVIOUS THAT THE LABOUR BUDGET IS AN EFFORT  
AT CARRYING OUT THE LABOUR PARTY'S PROGRAM OF INCOME RE-  
DISTRIBUTION. IN THAT SENSE IT IS A POLITICAL BUDGET.  
HOWEVER, IT ALSO SEEMS THAT HEALEY COULD BE HEDGING. IT  
IS APPARENT THAT HEALEY WANTS A MILDLY DEFLATIONARY  
BUDGET THAT COULD BE REVERSED BY THE SECOND BUDGET LATER  
THIS YEAR. BUT THE DEGREE OF DEFLATIONARY IMPACT IS NOT  
REALLY FORESEEABLE AT THIS TIME, AND THERE ARE SEVERAL  
THINGS TO BEAR IN MIND IN ASSESSING IT. IT IS BASED ON  
A TREASURY FORECAST OF THE ECONOMY WHICH IS HIGHLY  
(AND ADMITTEDLY) TENTATIVE. OTHER FORECASTERS HAVE SEEN  
A GREATER WEAKENING IN DEMAND THAN THE TREASURY DOES. IT  
IS ALSO BASED ON A REVENUE LEVEL WHICH MAY NOT BE ACHIEV-  
ABLE IF THE ECONOMY DOES NOT RETURN TO THE NORMAL GROWTH  
PATH AS QUICKLY AS FORESEEN AFTER THE 3-DAY WEEK. IN  
THIS REGARD, THE NEW PROPOSALS ON PRICE INCREASES UNDER  
STAGE 3 (SEE SEPTTEL) WILL REDUCE COMPANY PROFITS AND  
LIQUIDITY, AND COULD IN PART SLOW THE RETURN TO NORMAL  
GROWTH TRENDS AND PERHAPS INHIBIT PLANNED REVENUE  
INCREASES.

3. THE HIGHER TAX RATES -- BOTH CORPORATE AND INDIVID-  
UAL -- MAY ADVERSELY AFFECT BUSINESS CONFIDENCE AND  
INVESTMENT PLANS. EVEN IF HEALEY'S AIMS ARE SUCCESSFUL,  
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THE SHIFT OF RESOURCES TO EXPORTS WILL TAKE TIME.

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THERE WILL BE ECONOMIC DISLOCATIONS.

4. HEALEY CONCLUDED THAT, QUOTE IN ONE WAY OR ANOTHER MY BUDGET CALLS ON THE MAJORITY OF THE BRITISH PEOPLE TO MAKE SOME SACRIFICE FOR THE SURVIVAL OF THEIR WAY OF LIFE. FEW, I AM CONFIDENT, WILL REJECT THAT CALL. WE IN BRITAIN HAVE ALWAYS TAKEN PRIDE IN OUR ABILITY TO FACE REALITY WHEN WE ARE TOLD THE TRUTH. BRITAIN TODAY IS FACE TO FACE WITH A CRISIS WHICH IS NO LESS CHALLENGING BECAUSE IT HAS COME ON US SLOWLY--ALMOST IMPERCEPTIBLY--  
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OVER THE YEARS. A FUNDAMENTAL CHANGE OF COURSE IS LONG

OVERDUE. I BELIEVE THAT THE ACTION WHICH THE GOVERNMENT  
HAS TAKEN IN THE LAST FEW WEEKS CAN MARK THE TURNING  
POINT IN OUR PEOPLE'S POST-WAR HISTORY. A NEW SPIRIT OF  
CONFIDENCE AND COOPERATION IS ALREADY ABROAD. I  
ASK THE HOUSE TO ACCEPT THE PROPOSALS IN THIS BUDGET AS A  
FURTHER STEP ALONG THE ROAD TO REALISM AND A UNITED NATION  
UNQUOTE

5. THE REACTION FROM THE CONSERVATIVE BENCHES DID NOT  
REPEAT NOT INDICATE THAT THEY HAD BEEN CONVINCED,  
NOR THAT THEY WOULD ACCEPT ALL THE PROPOSALS WITH GOOD  
GRACE. ANNENBERG

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** GOVERNMENT BUDGET, INFLATION, ECONOMIC CONDITIONS, POUND (CURRENCY), BALANCE OF PAYMENTS, TAXES  
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**Disposition Approved on Date:**  
**Disposition Authority:** golinofr  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
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**Disposition Remarks:**  
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**From:** LONDON  
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**Previous Handling Restrictions:** n/a  
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US Department of State  
EO Systematic Review  
30 JUN 2005

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**TAGS:** EFIN, UK  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005